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Argentina

Retail Food Sector

1999

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Report Highlights:

Over 66 percent of the country's total foods and beverages and 80 percent of those imported are sold through hypermarkets, superstores, and supermarkets. Their share is projected to continue to grow as a result of the rapid expansion the sector is experiencing. Many strong international retail companies operate in Argentina. Small supermarkets, traditional stores, and kiosks keep losing share in the hands of large and more efficient retail stores and convenience stores, which are becoming more sophisticated. Excellent opportunities exist for a wide range of U.S. consumer-ready food products.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Buenos Aires [AR1], AR

SECTION I. MARKET SUMMARY

- < Argentine total retail sales of foods and beverages (F&B) for 1999 are projected at \$49.5 billion.
- < Hypermarkets, superstores and supermarkets account for 66 percent of the total, grocery stores account for 18 percent, and convenience stores (CS) and kiosks 16 percent.
- < Hypermarkets, but especially superstores, are the only two retail formats which have been growing. All the rest have been declining, most noticeably grocery stores and small supermarkets. Convenience stores are expected to expand in the future.
- < Many international retail companies are operating in Argentina: Wal Mart, Carrefour, Promodes, Ahold, Casino, Auchan, Makro.
- < Concentration is increasing as small/medium retail chains are being purchased by big multinational players. Coto, Jumbo (Chilean capital), La Anonima are just a few of the large retailers which are still of local ownership.
- < Strong competition and concentration in Buenos Aires city and suburbs, and new regulations limiting the expansion of big stores.
- < Large retailers are expanding into the interior of the country.
- < Large retail companies have gained tremendous negotiating power, putting strong pressure on their suppliers, e.g. free stock for every new store inauguration, high slotting fees, financial support for marketing, etc.
- < Most large supermarkets are in the process of expanding their private label lines, with increasing popularity.
- < Hypermarkets, superstores and supermarkets account for approximately 80 percent of the sales of imported food and beverages.

Value of Imported Food and Beverage Sales vs. Domestic Products (in \$ billions)

	1995	1996	1997	1998	1999*
Imported F&B	1.0	1.1	1.3	1.4	1.2
Domestic F&B	35.4	41.4	44.5	48.6	48.3
Imp/Dom %	2.8	2.7	2.9	2.9	2.5

* FAS projection

Trends in Distribution Channels

- < More hypermarkets and superstores will be established in the interior of the country, primarily in cities with 100,000+ people.
- < Slower pace of opening of large stores compared to the past five years.
- < A significant drop of sales per sqm. due to competition, but still attractive to encourage further investment.
- < Expansion of new-to-market warehouse stores (locally known as hard discounts), especially in Buenos Aires city and in medium-sized cities in the interior.
- < Concentration through new openings, and mergings and acquisitions are expected to continue.
- < Most purchases of domestically produced products by hypermarkets and superstores are done directly from processors, avoiding intermediaries.
- < Supermarkets import directly (usually through a local agent/representative) a significant

- < amount of foreign foods and beverages.
- < Increased home and office delivery by retailers.
- < Expansion of Internet and telephone sales.
- < Large retailers have modern centralized warehouses, whereas grocery stores and small supermarkets suffer from an inefficient and, in many cases, obsolete distribution and logistical system.
- < A majority of consumers are expected to continue to value price over quality, though value will be increasingly important.
- < While present, wholesale clubs (only Sam's and Makro) have not "caught on".
- < Convenience stores are expected to increase in numbers as more gas stations incorporate this service, increasing competition for small supermarkets and mom & pop stores.
- < With the incorporation of more food and beverages, kiosks and CS will increase its competition with small supermarkets.

Number and Type of Retail Outlets (1998)

Type of Store *	Number of Outlets	% of Total	% of Sales
Hypermarkets	52	0.02	15.7
Superstores	1211	0.58	30.0
Supermarkets	12,273	5.90	18.5
Grocery Stores	102,710	49.35	18.7
Convenience Stores	4,533	2.18	3.5
Kiosks	87,338	41.97	13.6
Total	208,117	100	100

Source: CLAVES Información Competitiva

* For definitions, please check Company Profiles

Trends in Services Offered by Retailers

- < Incorporation of home meal replacement services, such as hot and frozen meals
- < Larger space devoted to frozen foods.
- < Thematic shelves are starting to be adopted. Some hypermarkets offer ethnic food, kosher food, organic products.
- < Home delivery is expanding in all formats. However, office delivery is mainly attended by kiosks and CS.
- < Increasing popularity among the more affluent consumers to purchase via Internet or by phone. There are several large retailers which offer sales through the web. Disco, the first retailer to incorporate this service has approximately 10,000 clients, with an average purchase almost 7 times higher than their overall average purchase.
- < Another trend to be continued is the opening of other food and non-food businesses annexed to hypermarkets and superstores.
- < Incorporation of inexpensive restaurants/fast foods inside the stores.

Outlook for U.S. Exports of Food & Beverage Products

ADVANTAGES	CHALLENGES
Argentine consumers think of US products as high quality and reliable	Higher distribution costs to reach interior of the country and smaller cities
A large number of Argentines travel to the US, and are exposed to American culture and products	Lack of brand awareness of many imported products by importers, retailers and consumers
Imported food is speciality and/or novelty in large retailers and CS	Lack of importer and retailer knowledge in purchasing and merchandising US products
Efficiency, value and variety of U.S. F&B products	Large local supply of most food and beverage products
Increasing demand for convenience foods (including frozen and microwaveable foods)	Limited market awareness by US exporters
Hypermarket and superstore expansion in the interior of the country opens new opportunities to US F&B products	Mercosur preferential tariffs encourage inter-regional trade. Brazilian and Chilean competition is strong
Large foreign retail chains have more opportunities to deal with foreign suppliers	Initial relatively small size purchases, which discourages US exporters
Arrival of new competitors to the retail market creates new business opportunities	Cost of launching new brands/products. US companies seldom support local importers/agents with marketing funds
Registration of food products for import and import procedures are usually relatively simple	

SECTION II. ROAD MAP FOR MARKET ENTRY

A. SUPERMARKETS, SUPERSTORES, HYPERMARKETS OR SUPERCENTERS, CLUB AND WAREHOUSE OUTLETS

Entry Strategy

Imported F&B in Argentina generally come through any of the following ways:

a) Local processors (mainly subsidiaries of multinational companies) such as Nestle, Pillsbury, Parmalat, etc. They import and distribute imported products, usually manufactured by their sister companies in the region and around the world;

b) Local food and beverage importers which import products and then market them in supermarkets and/or HRI establishments. There are a few of these which have been in the

market for several years and have well-established brands. They mainly specialize in gourmet-type foods.

c) Local agents which work closely with large retail chains. They generally present twice a year new products to the buyers in the supermarkets. Imports are done under the name of the supermarket. They charge a commission, but they stay on top of the product to check that it is well marketed.

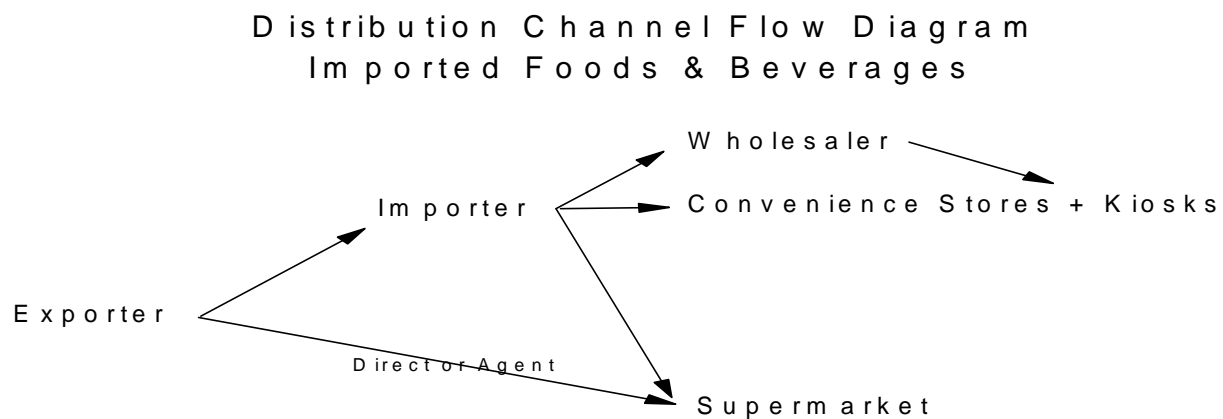
d) Direct imports by supermarkets. Import or buying managers of the large retailers can identify good products in international food shows, buying missions, etc. They establish a direct contact with the foreign supplier and import the products directly.

The best method to import a product will depend upon the product, the importer, and retailers. Private labeling, direct marketing, and selling to importers are all used. However, a common characteristic of virtually all successful trade depends upon the commitment of the exporter to devote the time and resources necessary to building a market for their product(s). There are high marketing costs (slotting fees, publicity fees, stocks for every new store opening, etc.) which may have to be paid.

* Frozen food products have to be marketed through an importer or local processor which has a refrigerated distribution chain. Supermarkets will not import directly these types of products.

* Food products in general can be imported directly (not through agents) by supermarkets. However, making efficient contact with their buyers is very difficult. Based on past experiences, most products imported directly have not had continuity in the market.

Market Structure



Company Profiles (1998)

Retailer	Ownership	F&B Sales \$ Million	No. of Outlets	Locations	Purchasing Agent Type
Norte/Tia	Local/Instit. Funds	1,420	122	National	Direct, agent, importer
Disco Ahold	Local/Urugu ayan/Dutch	1,175	111	National	Direct, agent, importer
Carrefour	French	1,215	19	Buenos Aires and some large cities	Direct, agent, importer
Coto	Local	856	73	Buenos Aires	Direct, agent, importer
Jumbo	Chilean	540	7	Buenos Aires	Direct, importer
Wal Mart	U.S.	290	8	Buenos Aires and some large cities	Direct, agent, importer

Source: CLAVES Información Competitiva

- < Argentina has mainly the following retail store formats:
 - < hypermarkets (+5,000 sqm., +25 checkouts, driving distance)
 - < supermarkets (400/5,000 sqm., 4/25 checkouts, walking distance)
 - < superettes (-400 sqm., less than 4 checkouts, two blocks away)
- < Buenos Aires city and suburbs are covered by all three above formats.
- < Large cities (mainly provincial capitals) have primarily supermarkets. However, large retailers are starting to install hypermarkets.
- < Smaller cities (less than 100,000 people) have primarily superettes and some supermarkets.
- < Although Argentina produces a great variety of foods and beverages, local hypermarkets and large superstore chains offer a wide selection of imported products, especially in stores located in the most affluent areas of Buenos Aires city and suburbs (where one third of the country's population lives).
- < Supermarkets incorporate new imported products to attract consumers. Globalization encourages people to try foods and beverages from around the world.

B. CONVENIENCE STORES, GAS MARTS, KIOSKS

Entry Strategy

- < The best method for new-to-market exporters is to enter the market through importers who have their own distribution networks, and to a lesser degree, through wholesalers.
- < It should be noticed that the participation in trade shows, especially SIAL Mercosur, and other professional trade shows foster contact between U.S. suppliers and importers primarily from the Mercosur region.
- < In general, a local representative is helpful to develop negotiations with importers. Most food importers sell directly to this subsector.

Market Structure

Please refer to flow chart in Section II, Subsection A, Market Structure.

Company Profiles

Retailer Name	Ownership	Sales (\$ Mil)	No. of Outlets	Locations	Purchasing Agent Type
EG3 (Repsol)	Spanish	N/A	N/A	Nationwide	Direct, importer, agent
Esso Shop and Minishop (Esso)	U.S.	1,200-1,800	300	Nationwide	Direct, importer, agent
AM-PM (Repsol)	Spanish	360-600	100	Nationwide	Direct, importer, agent
Select (Shell)	British/Dutch	N/A	200	Nationwide	Direct, importer, agent

Source: CLAVES Información Competitiva

- < **Gas mart chains** or **convenience stores** are a relatively new format in Argentina. They started operation in the early nineties as a separate division of oil companies. A high percentage of these outlets operate under franchising. Approximately 70 percent of gas stations includes a CS.
- < There are approximately 1,000 CS all over the country. By the end of 1999, they are expected to account for over 3.3 percent of the total retail sale of food and beverages.
- < They are located within gas stations, open 24 hours a day, and offer a wide variety of food products (between 2,000 and 3,000), such as frozen food, fast food, snacks, confectionery items, alcoholic and non-alcoholic beverages, dairy products, etc. They also include a gift area and an eating area with a couple of microwaves. Their customers usually make purchases by impulse (e.g. confectionery items), or because of their proximity and the fact that they are open 24 hours a day.
- < Being open 24 hours a day and their relative security are some of the major attractive features of gas marts.
- < **Kiosks** are smaller than gas marts and they primarily sell confectionery products, snacks, cigarettes, soft drinks, ice cream, etc. They do not have eating areas, and most of them are family-run. Some kiosks have become drugstores, with self-service shelves and a wider product variety.
- < There are over 87,000 kiosks in Argentina.
- < In 1998, kiosks accounted for 13.2 percent of the total retail sale of food products
- < The share of imported products in CS and kiosks is estimated at 4 percent. Most imported items are chocolates, alcoholic beverages, ice cream, ham, cheese, and specialties.
- < The location of CS and kiosks in Argentina is mostly related to consumption patterns. Buenos Aires City and suburbs show a higher concentration of outlets (35 percent), followed by major cities such as Córdoba, Rosario, Mendoza, Tucumán, Mar del Plata, Bahía Blanca, Santa Fe, Paraná, Neuquén, and Salta.
- < Good growth is expected in this subsector in the near future as old gas stations are being

- modernized.
- < CS's customers primarily belong to the upper-middle and middle socio-economic classes. Kiosks' customers belong to the upper-middle, middle, and middle-low socio-economic classes.

C. TRADITIONAL MARKETS - "MOM & POP" SMALL INDEPENDENT GROCERY STORES AND WET MARKETS

Entry Strategy

- < The best method to enter the market is the same as for convenience stores (please refer to Section B).

Subsector Profile

- < By the end of 1999, traditional markets are expected to account for almost 18 percent of the total retail sale of food products. Around 15 years ago, traditional markets comprised 54 percent of the total sales of food and beverage products.
- < In the last decade, this subsector has shown a gradual decline in favor of supercenters and superstores which -- as mentioned above -- concentrate approximately 50 percent of the total retail sales of food and beverages in Argentina.
- < Traditional markets' customers primarily belong to the middle and middle-low socio-economic classes.
- < Only a small percentage of imported food and beverages is sold through traditional stores.

SECTION III. COMPETITION

- < Argentina is essentially a food-producing country.
- < Food products imported into Argentina usually fall into one of the following categories: 1) they are premium items, 2) they are less expensive than domestically-produced products, 3) they are novelties, or 4) domestic production is smaller than local demand.
- < A wide range of food products (e.g. pork and poultry meat, nuts, sausages, some cheeses, snack foods, canned foods, and confectionery items) can be purchased abroad at lower prices.
- < Argentine companies also import a wide range of premium products because of their high quality and variety.
- < Food products are imported mainly from Mercosur countries (primarily Brazil and Chile) due to two main reasons: proximity and reduced preferential import tariffs, and also from the United States, which accounts for 11 percent of the total food product imports, and European countries (especially Spain, France, Italy, and Germany).
- < With regard to **snack food**, products of U.S. origin have a very good reputation. However, the main market player has manufacturing plants in Argentina (Note: PepsiCo holds over 70 percent of the Argentine snack food market).
- < On **breakfast cereals**, domestic production is also very significant. U.S.-owned companies established in Argentina (Kellogg's) lead the market. However, some varieties are imported. Disco supermarket imports from the United States for their

- private label.
- < Argentina produces and exports **red meats**. Thus, imports are not significant although some sweetbreads are imported from the United States. **Pork meat** comes primarily from Brazil and, in the case of **poultry**, Brazilian broilers account for 90 percent of Argentine total imports. Only a small amount of **eggs** are imported from Uruguay.
 - < Regarding **dairy products**, Argentina is self-sufficient. However, some imports of cheese are carried out. Uruguay accounts for over 70 percent of hard cheese imports, followed by the Netherlands and New Zealand. On semi-soft cheese, Uruguay has an import market share of 35 percent, again followed by the Netherlands and New Zealand. And, with regard to soft cheese, the United States accounts for more than 50 percent, followed by Uruguay and Denmark. Dry whole milk comes primarily from New Zealand (50 percent share), and to a lesser degree, the Netherlands, and Belgium.
 - < Argentina is also self-sufficient in the production of **fish and seafood**. However, some specialties are primarily imported from Brazil, Chile, Spain, and Thailand.
 - < **Stone fruits** are primarily imported from Chile (peaches and plums), but only to add to domestic production. The United States is the second supplier of apples to Argentina, after Chile, although domestic production is very large. With regard to **canned fruits**, imported products include peaches, pineapples, and fruit cocktails. Chile is the main supplier, followed by Thailand and Greece.
 - < During the past few years, the United States accounted for 30 percent of Argentine imports of **tree nuts**.
 - < Regarding **soft drinks**, imports have a 1 percent-share of the total market, of which 75 percent corresponds to Spain and Brazil. French brands of **mineral water** account for 80 percent of total imports. Brazil accounts for 40 percent of the total beer imports, and the United States, 20 percent, followed by Mexico and the Netherlands. **Wine** imports are led by Spain (35 percent) and Germany (30 percent). France accounts for 35 percent of **sparkling wine** imports, and Germany, 20 percent. There is a growing demand for Californian wine.
 - < Argentina is self-sufficient in **pet food** production, especially after the opening of several manufacturing plants owned by foreign companies, who have established in the country in the last few years. However, some *premium* pet food is imported primarily from the United States (over 40 percent), followed by Brazil which is also a large supplier.

SECTION IV. BEST PRODUCT PROSPECTS

The best product prospects for U.S. food and beverage products in the Argentine retail market are as follows:

Product Type	Products Present in the Market w/Good Sales Potential	Products not Present in Significant Quantities but w/Good Sales Potential	Products not Present because They Face Significant Barriers (or for Other Reasons)	Barriers/Reasons
Snack foods	X			

Breakfast cereals	X			
Beef			X	Although U.S. beef is allowed entry into Argentina, there is a large domestic production. However, sweetbreads are imported from the United States.
Pork meat			X	USG and GOA are finalizing certification to allow exports of U.S. fresh and frozen pork to Argentina. Good potential for U.S. pork exports.
Poultry meat		X		
Dairy/Semisoft cheese		X		
Dairy/Soft cheese	X			
Fish and seafood		X		
Fresh fruits		X		Lemons from FL, stone fruits from CA (only 7 counties are approved to export), and grapefruits (only TX is approved) are prohibited entry into Argentina due to phytosanitary restrictions.
Fresh vegetables		X		
Product Type	Products Present in the Market w/Good Sales Potential	Products not Present in Significant Quantities but w/Good Sales Potential	Products not Present because They Face Significant Barriers (or for Other Reasons)	Barriers/Reasons
Tree nuts	X			
Mineral water		X		

Soft drinks		X		
Beer	X			
Wine	X			
Pet foods	X			
Dry foods	X			
Frozen foods	X			
Canned foods	X			
Microwaveable foods	X			

Source: CLAVES Información Competitiva

SECTION V. POST CONTACT AND FURTHER INFORMATION

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